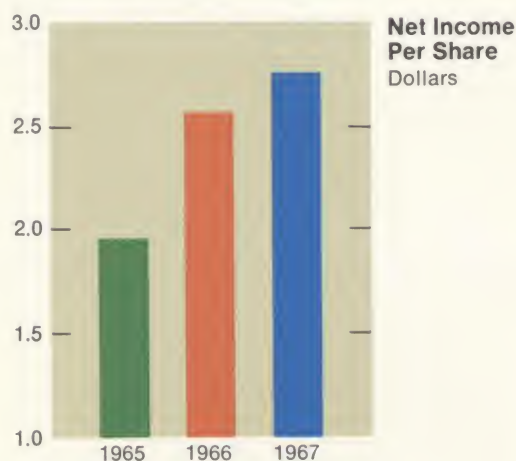
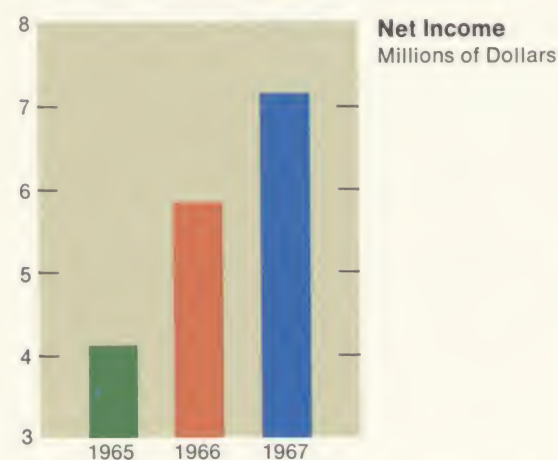
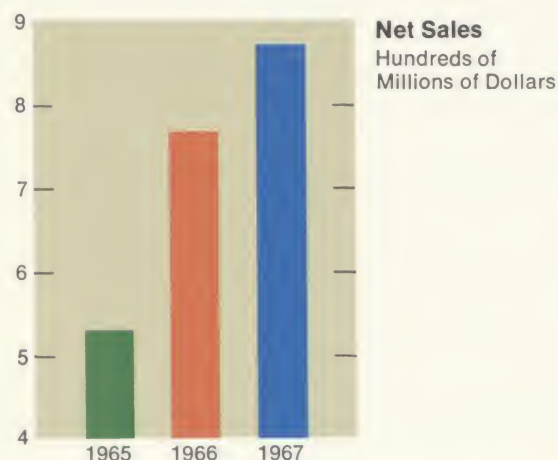


RAPID-AMERICAN CORPORATION



ANNUAL REPORT 1967



RAPID-AMERICAN CORPORATION

ANNUAL REPORT FOR THE YEAR ENDED JANUARY 31, 1968

Financial Highlights

- Earnings increased to \$7,190,000, a new company record and the fourth year of continued progress.
- Quarterly dividend payments of 12.5 cents per common share resumed.
- Consolidated sales increased 13 per cent to \$873,270,000.
- Leeds Travelwear, Inc., leading lightweight luggage manufacturer, acquired.

Table of Contents

Letter to shareholders	2
The concept of Rapid-American Corporation	5
Joseph H. Cohen & Sons	9
Leeds Travelwear	10
McCrorry Corporation	
MMG	12
Lerner	14
S. Klein	16
OTASCO-Economy	18
Best & Co.	19
Glen Alden Corporation	19
Source and application of consolidated financial resources	20
Statements of consolidated income	21
Consolidated balance sheets	22-23
Statements of shareholders' equity	24
Notes to financial statements	25
Accountants' opinion	27
Directors and officers	28

Annual Meeting

The Annual Meeting of Shareholders of Rapid-American Corporation will be held in Room 315, Chemical Bank New York Trust Building, 277 Park Avenue, New York City, on Wednesday, May 29, 1968 at 1:00 p.m.



Meshulam Riklis, Chairman of the Board and President

To Our Shareholders:

We are pleased to report that in 1967 your company achieved record earnings and sales, resumed payment of dividends on the common stock and acquired Leeds Travelwear, Inc., the country's largest manufacturer of soft-sided zippered luggage.

Record Earnings and Sales

Earnings for the 12 months ended January 31, 1968, increased 22 per cent to \$7,190,000, equal to \$2.75 per common share, compared with \$5,894,000, equal to \$2.59 per common share, for 1966.

Sales increased 13 per cent to \$873,270,000 compared to \$771,577,000 a year earlier.

The gain in earnings resulted from continued improvement in McCrory Corporation, an increase in our percentage of common stock holdings in McCrory, and the acquisition of Leeds.

Per share earnings for 1967 were computed on the basis of an average of 2,366,190 common shares outstanding during the year, compared to 2,101,707 shares in 1966.

General Financial Improvement

The company's working capital increased \$16.5 million from the prior year. Included in this was \$3.3 million from the proceeds of a rights offering to shareholders which was oversubscribed.

In light of the progress achieved, your board of directors on November 10 declared a quarterly dividend of 12.5 cents per common share. Rapid-American's last quarterly dividend was paid in April, 1963. The board intends to maintain an annual dividend rate of 50 cents per share on the common stock.

Leeds Acquisition

On November 10, the shareholders of Rapid-American and Leeds approved the merger of Leeds into Rapid on a pooling of interests basis. Leeds shareholders received approximately 371,000 shares of new Rapid-American \$2.25 convertible preferred stock. In connection with the acquisition, Rapid-American's outstanding \$.75 preferred stock was reclassified into the new class of \$2.25 preferred stock, thereby simplifying the capital structure of your company.

Leeds has excellent position in the marketplace, a strong product line, an outstanding management team and a fine modern manufacturing facility. Not only does Leeds have potential for internal expansion, but it is a nucleus for the acquisition of other companies in the luggage, recreational and general leisure industries. A more detailed description of Leeds can be found on page 10.

Joseph H. Cohen & Sons

The sales of this division, the country's largest independent manufacturer of men's suits and trousers, increased by \$500,000 to \$42,500,000.

Orders thus far in 1968 are far ahead of last year. Management made a number of improvements in its manufacturing, distribution and marketing efforts last year, some of which are described in the section on page 9.

McCrory Corporation

McCrory again achieved record sales and earnings. Net earnings for the 12 months ended January 31, 1968, were \$12,066,000, equal to \$2.27 per common share, compared with \$10,566,000, equal to \$1.81 per common share in 1966.

Sales for 1967 rose to \$813,416,000 compared to \$712,727,000 a year earlier.

All McCrory's operations are profitable and are progressing. This year two units celebrate their 50th Anniversary—Lerner Shops and OTASCO-Economy Auto Stores.

Sales and earnings of McCrory's divisions and subsidiaries are set forth below. Divisional figures do not

reflect certain other income, deductions and corporate home office expenses. Home office expenses include interest payment on long and short-term debt, corporate executive salaries, legal and auditing fees and other expenses. Other income consists principally of dividends on investments and earnings of McCrory Credit Corporation.

- MMG increased its *pre-tax* profit 14.1 per cent to \$12,040,000 compared with \$10,553,000 last year. MMG has achieved a 5.1 per cent *pre-tax* profit margin on sales which is among the highest in the variety store industry. MMG had sales of \$234,677,000 in 1967, compared to \$238,406,000 a year ago.
- S. Klein reported *pre-tax* earnings of \$3,071,000 on sales of \$220,883,000. S. Klein was merged into McCrory in November of 1967. S. Klein became a consolidated subsidiary of McCrory at the end of April, 1966.
- Lerner Shops increased its net earnings *after taxes* 27 per cent to \$8,550,000, compared with \$6,735,000 last year. Its sales rose 9.2 per cent to \$248,735,000, compared with \$227,760,000 a year ago.
- OTASCO-Economy Auto Stores had *pre-tax* earnings of \$5,569,000 compared with \$5,229,000 in 1966. Sales in 1967 were \$69,997,000 compared with \$65,294,000 a year earlier.
- Best & Co. had *pre-tax* earnings of \$534,000 on sales of \$35,638,000 in 1967. There are no comparable figures on its performance a year earlier.

The progress of Glen Alden Corporation, in which McCrory has a major investment, is described on page 19. On March 20, 1968, Glen Alden purchased 945,126 shares of common stock (prior to a three-for-two split in March, 1968) of Schenley Industries, Inc., which constitutes approximately 18 per cent of Schenley's issued and outstanding common stock. Glen Alden has agreed to afford all holders of Schenley common stock an opportunity to sell their shares to Glen Alden.

Prospects

Rapid-American completed 1967 stronger and more stable than it has ever been.

An indication of our stability is that the corporation was able to achieve a meaningful improvement in profits despite a poor year in the menswear field, causing a moderate decline in our Joseph H. Cohen division earnings. Additional punch was added to total company earnings through the contribution of our Leeds division, and the continuing progress of our McCrory subsidiary.

Much as other major U.S. corporations, our fortunes for the coming year are substantially affected by the general economic climate in the country. Given present conditions, the corporation can be expected to make healthy strides forward. As indicated earlier, Joseph H. Cohen orders thus far in 1968 are far ahead of a year ago. Leeds is budgeting for substantial gains based on a radically new process for manufacturing seamless luggage as well as continued growth of the rest of its line. All of the operating units of McCrory Corporation are expected to expand with resulting higher profits. I am, therefore, very confident as to our prospects for continued improvement in earnings this year which should outpace our performance of last year.

In addition to internal growth, your corporation is looking to expand through acquisition. The managements of both Joseph H. Cohen and Leeds are actively carrying on discussions with companies that would, if acquired, extend and complement Rapid-American's existing businesses.

At this time, I would like to thank our banks and other business friends, and our directors, officers and employees for their help in the past year.

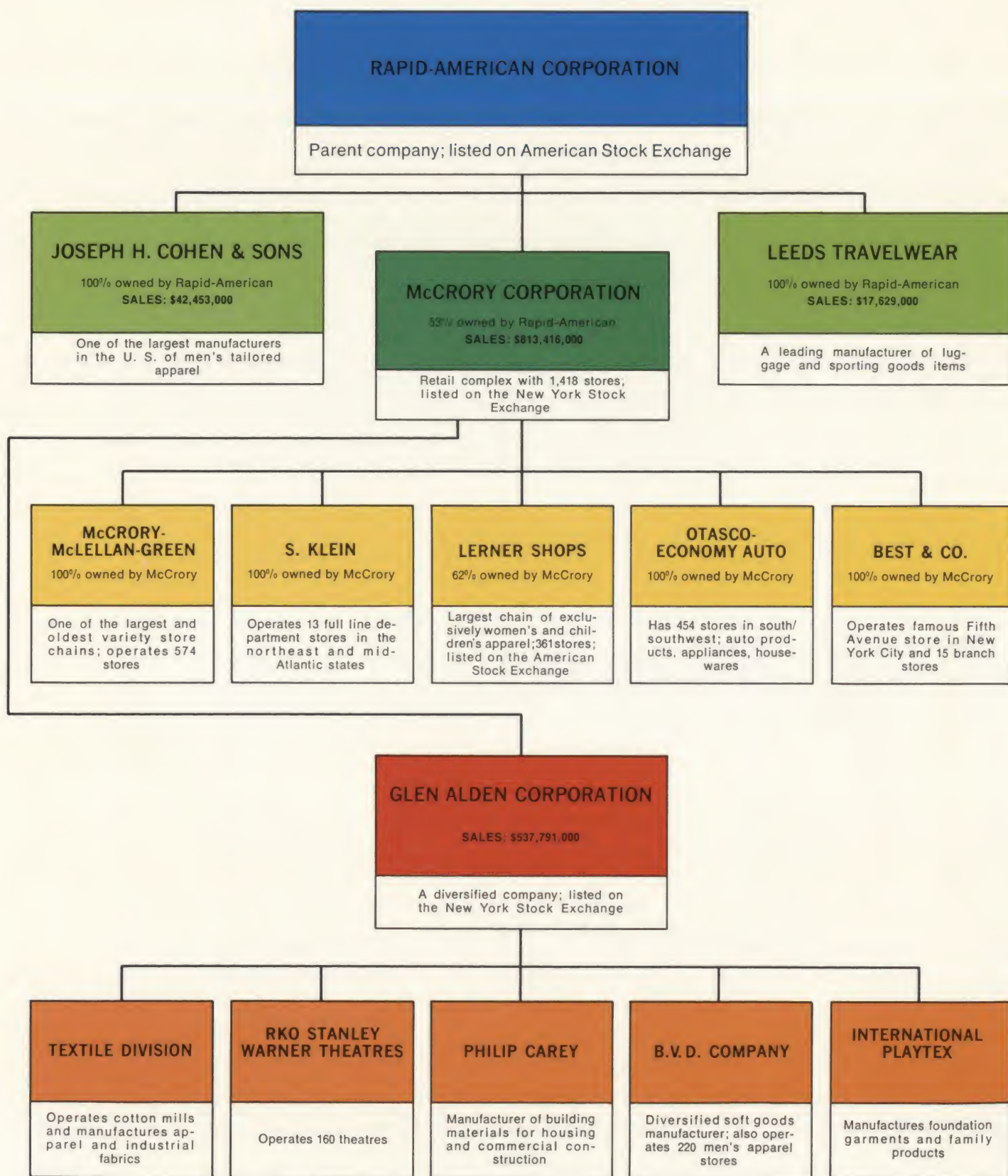
Sincerely,



M. Riklis

Chairman of the Board and President

April 8, 1968



Rapid American Family of Companies' Total Sales: \$1,412,000,000

The Concept of Rapid-American Corporation



The underlying reason for the structure of Rapid-American, as depicted in the accompanying chart, is to provide the company with a basis for both the *participation in* and *control of* a large enterprise. Through these channels of ownership and control, Rapid-American derives the potential for a very significant earnings growth.

Wholly-Owned Operations

The Corporation employed four criteria in the acquisition of its operating divisions, Joseph H. Cohen & Sons and Leeds Travelwear, Inc. The first criterion is that the business must have competent operating management in depth so that it can function autonomously; Rapid-American provides policy and financial guidance to its operating divisions. The second criterion is that the business must manufacture consumer products for which there is broad-based and continuing demand. The third criterion is that the operation must have substantial growth potential. The fourth is that the business must have a strong leadership position in its industry, thus assuring stability and "staying power."

Joseph H. Cohen & Sons and Leeds Travelwear both have several levels of excellent, experienced management. Joseph H. Cohen, one of the country's largest manufacturers of men's apparel, has grown steadily through the years, has not been subject to major cyclical fluctuations, and is obtaining an increasing share of both the traditional men's apparel market and the growing market for apparel for special occasions and leisure.

Leeds Travelwear is one of the largest luggage manufacturers in the country and is the largest producer in the lightweight zippered luggage category. It has a solid growth record and expects to increase its share of the over-all luggage market which is growing rapidly, spurred by increasing interest in travel and recreational activities.

McCrory Corporation

Through its control of McCrory Corporation, Rapid-American participates in the stability and growth of one of the country's major retailing concerns.

Two of McCrory's five operating units, Lerner Shops and OTASCO-Economy Auto Stores, are 50-year-old businesses which have grown steadily throughout their history. By virtue of a three-year rebuilding program at the McCrory-McLellan-Green division this entity achieved in 1967 the level of stability and growth represented by Lerner Shops and OTASCO-Economy Auto Stores. McCrory's very excellent management is now in the midst of rebuilding two recent McCrory acquisitions—S. Klein Department Stores and Best & Co. McCrory has budgeted very substantial growth during the next five years, the bulk of which is slated to come from the profitable expansion of S. Klein.

Glen Alden Investment

One step further removed in structure from Rapid-

American is Glen Alden Corporation. Through its investment in Glen Alden, McCrory is able to achieve diversification. Glen Alden includes among its operations: a Textile Division; RKO Stanley Warner Theatres; Philip Carey Corporation, producer of building materials; B.V.D. Company, manufacturer of wearing apparel and operator of retail stores; and International Playtex Division, manufacturer of "Playtex" foundation garments and other products.

Rapid-American Family of Companies

Many shareholders and members of the financial community have shown interest in how the Rapid-American management keeps track of its vast family of companies. First, as indicated earlier, the emphasis in all companies in which Rapid-American has a direct or indirect financial investment is to build a capable management team to operate the business. Second, Rapid-American's top executive group is in continuous contact with the decision-making teams in all operations, thus keeping current with all affairs.

Finally, Home Office, through its financial guidance of its family of companies, keeps all major projects under careful scrutiny.

M. Riklis

**Operating units of the
Rapid-American family of companies have:**

Autonomous, dynamic management



Computerized planning and control systems



Retail stability and growth



Market leadership



Mechanized, efficient facilities



Joseph H. Cohen & Sons

This 58-year-old menswear manufacturer responded last year to the growing affluence of the American male and his desire for individuality.

The division upgraded all of its apparel lines by providing finer materials and refinements in tailoring. The JHC Plus line has been enhanced with a greater number of hand details.

During the first few months of 1968, the company's entire fall season production capacity was reserved on the basis of orders received.

A celebrated designer of men's clothes has been given the responsibility for the creation of a new private designer line of clothing. A number of unique fashion approaches already have been developed which have been well received in the field.

A new distribution center completed in 1966 was in full operation last year and provided economies as well as making additional services available to the division's customers.

Joseph H. Cohen, the country's largest independent manufacturer of men's tailored apparel, operates through three manufacturing divisions. The first, JHC Plus division, produces hand detail garments utilizing the finest imported fabrics and high quality trimmings.

The Walger Deluxe division provides popular-priced, finely tailored garments, the backbone of business for many of the country's largest retailers.

The third division, Horatio Alger, is geared to the production and marketing of modest-priced suits and sportcoats, primarily for young men.

The bulk of the company's production is private label merchandise manufactured to order for major retailers.

The main manufacturing facilities of the company are in Philadelphia. Additional facilities are located in New Haven, Indiana, with distribution centers in Philadelphia and Los Angeles.

New design



Quality control



On the cutting table

Suits at new Joseph H. Cohen & Sons distribution center (left) are readied for shipment to customers.

"Roto-cast" machinery



Fabricating vinyl



Luggage frame assembly

Leeds Travelwear

In line with its emphasis on technology, Leeds Travelwear, Inc., acquired by Rapid-American in 1967, has launched a unique new line of seamless sportsbags.

The new "Swinger" sportsbags are manufactured utilizing a new "roto-cast" process. The sportsbag is completely waterproof and more durable than traditional, competitive items. Although the new line will not be on the market until late spring 1968, customer interest has been gratifying.

Leeds manufactures a diversified line of luggage, bowling and sporting goods. The company has completed an agreement for the rights to the Arnold Palmer name for its golf bag division. This new Palmer line should add substantial volume in the years to come.

In response to growing demands for its products, Leeds last year completed an 80,000 square foot addition to its main plant in Clayton, Delaware. A new 40,000 square foot warehouse-distribution center was completed in Los Angeles which, added to existing distribution facilities in other areas, will help the company better serve the fast-growing western market.

In line with the expansion of the company, a number of new executives were added in 1967, including a new Vice President in charge of marketing and a new Director of Advertising.

Also last year, a new IBM computer was installed after a year of planning and programming. The new computer will provide management with prompt and accurate information on market studies, sales, inventory and other matters. The new data processing unit is expected to help reduce costs and enhance Leeds' ability to respond to changing market conditions.

The backbone of the company's expansion is the growing public interest in travel and related leisure activities. This is aided by population increases and the company's continuing ability to increase its share of the luggage market.



The world of MMG:

The shopper's apprentice

How many yards?



Fun and games



Mmm! If only they were real



A sales-building display

McCrory-McLellan-Green

In 1967, McCrory-McLellan-Green (MMG) came "of age" as a strong, stable operation.

The variety store division achievement of a 5.1 per cent pre-tax profit margin on sales fulfilled a five-year goal set for it only three years ago.

The major emphasis in the past year was to increase efficiency in movement of goods and merchandise control. The anticipated benefits of the MMG home office move in 1966 from New York City to York, Pennsylvania, became a reality in the past year. There was much better coordination and liaison between the division's buying and merchandising staffs and those executives responsible for the movement of merchandise from the supplier to the stores.

Additional mechanized equipment installed at York produced a number of efficiencies. Systems were developed for sequential loading of trucks, which provided for better utilization of warehouse facilities and truck equipment.

On other fronts in 1967, the division's personnel training programs succeeded in reaching all levels on a continuous basis. In the field of merchandising, the division has broadened the assortment of goods in departments where the public has given MMG recognition—ladies' sportswear and lingerie, ladies' and men's hose and men's shirts. In general, greater emphasis has been placed on soft goods. A team of stylists has been training store personnel in the art of soft-goods display and sales.

Plans have been completed for 15 new stores in 1968. Among these will be the division's first store in Nebraska.

An eye for glamour



Sugar and spice



Lerner Shops

Lerner Shops enjoyed the most successful year in its history in 1967.

It was a year of tremendous upheaval in the world of fashion. Hemlines zoomed well above the knee bringing in the era of the mini skirt and the mini dress. Lerner Shops' buyers and merchandising experts were fully prepared for this major new trend, having placed orders with suppliers months earlier for items which they knew would be in demand. Women from Boston to San Diego were forced to take a hard look at their wardrobes and replace a good deal of their obsolete clothes with the new fashions.

Lerner Shops celebrates its Golden Anniversary Year in 1968. Its first store was founded in New York City in 1917 as a blouse specialty shop. As new stores were added, the line of merchandise was expanded to include lingerie, dresses, sportswear, coats, suits and children's apparel.

Lerner has been profitable in all of its 50 years and has pioneered in a number of ways. It was one of the first national chains to expand into suburban shopping centers. It also was a front-runner in the use of computers and other data processing equipment.

During its 50th Anniversary Year Lerner will open in Pittsburgh its sixth regional headquarters. (Regional offices previously were established in Los Angeles, Atlanta, Denver, Chicago and Jacksonville.) The high point of 1968, however, will be the scheduled opening of a new Lerner Shops headquarters-distribution facility in New York City. It will be among the most automated and efficient operations of its kind.

Lerner Shops: the latest fashions at moderate prices



S. Klein full-line department stores:

Handbags



Garden shop



Millinery

Furniture



Bedding and linens

S. Klein Department Stores

In 1967, S. Klein set the stage for an expansion program under which seven new stores are expected to be opened by 1970. A new, more effective organizational structure was completed in the areas of merchandising, store operations, computer information and logistics.

The transition of S. Klein's merchandising policy has been completed. Rather than concentrating on "bargain merchandise," as was past practice, the new S. Klein merchandising program has resulted in the development of full line department stores, selling a broad range of up-to-date fashion and staple merchandise for nearly every kind of customer, with unusual value at all price levels. To achieve the above, the structure of the merchandising division was broadened to obtain better supervision and control. The advertising and sales promotion department also was restructured for efficiency.

An operations division was established which resulted in strong, specialized central management whose activities encompass store management, movement of goods, manpower and services. Each of these activities was placed under the supervision of a vice president, carefully selected from within S. Klein. Individual store organizational structure was revamped to match these same activities so that experienced specialists would become responsible for profits.

A new computer was installed which improves merchandise and accounting control techniques and furnishes management information on which to make informed decisions.

Logistics and warehousing problems are under continual analysis for improvement and savings. During 1967, a new central receiving and marking facility was established to handle the bulk of the division's fashion goods, resulting in substantial savings and improved services to the stores.

In March, 1968, the Love's store in Valley Stream, Long Island, changed its name to S. Klein. All stores in this division now operate under the S. Klein name.

Plans have been completed for the opening of two new stores during 1968, one in Wayne, New Jersey and one in Hicksville, Long Island.

Floor coverings



Men's clothing



Hardware

In its 50th Anniversary Year, OTASCO-Economy Auto Stores is expanding sales of outdoor, home, recreational and automotive products.



OTASCO-Economy Auto Stores

OTASCO-Economy Auto Stores, which completed another year of record earnings and sales, made major executive changes to strengthen the management team and provide continuity for growth and progress.

Abe Brand, who joined the division in 1931 and has been Executive Vice President since 1965, was elected President. Julius Sanditen, former President, was elevated to Vice Chairman of the division's Board and remains as Chief Executive Officer.

The division participated in the increased general interest in auto safety. Sales personnel emphasized to customers the importance of proper lamps, directional signals, emergency flashers, seat belts, and safe new tires. The stores' auto service centers carried on a useful and profitable business, helping assure that customers' automobiles were safe to ride the highways.

Further sales expansion occurred as a result of adding new sporting goods and outdoor home lines for recreation-minded consumers.

The division made progress in its effort to provide customers with greater personal attention. The "OTASCO and Economy Auto Man" program, begun in 1966, became increasingly effective in 1967 in emphasizing personal attention for the customer. Personal service as a theme was featured in all the division's newspaper, radio, television and catalog advertising.

In 1968, OTASCO-Economy Auto Stores celebrates its 50th anniversary. An extremely ambitious Golden Anniversary Year retail effort currently is underway. Extensive promotions and advertising programs have been developed to celebrate the division's 50th year and arrangements have been made with suppliers so that customers can benefit from special retail values.

Best & Co.

During its first full year under the McCrory banner, Best & Co. emerged as an important factor in the contemporary fashion scene. It is rapidly capturing a chic new audience including young career women and customers of all ages with young-at-heart fashion interests—all the while maintaining the loyalty of its long-established following.

This progress has been generated by an accelerating face-lifting operation in its Fifth Avenue store, the beginnings of a new advertising format, more imaginative window displays, and a storewide change in visual decor and presentation of merchandise.

Best's famous Liliputian Bazaar, so popular with the 'carriage trade', continues to be a leading fashion influence in youth clothes. Last year Best introduced a Rowes of Bond Street shop. Rowes has been clothing the children of the British Royal Family and the American social set for many years.

During 1967 Best also emphasized strengthening its management group.



Rowes of Bond Street for boys

Glen Alden

As a result of three major acquisitions in 1967 Glen Alden was transformed into a new company.

The enlarged Glen Alden—including The B.V.D. Company, Inc., Philip Carey Corporation and the Stanley Warner Corporation—achieved net earnings of \$17,611,000, equal to \$1.15 per common share, on sales of \$537,791,000 for the year ended December 31, 1967. These figures include the earnings and sales of B.V.D. for nine months.

Glen Alden's businesses now fall into the following categories: packaged consumer products, apparel, retailing, textiles, motion picture theatres, and building materials.

In the packaged consumer products field, the company is well known for its Playtex foundation garments and other Playtex family products. The apparel group manufactures men's and boys' garments and furnishings sold under the "Alligator," "Timely," "Botany," "B.V.D.," "Beau Brummel," "Mr. John" and "Fabiani" labels.

Retailing operations include National Shirt Shops, McFarlin's stores, Mullen and Bluett stores and Adams Clothes Shops. The Textile Division produces decorative and industrial fabrics. RKO Stanley Warner operates 160 motion picture theatres and the Philip Carey operation manufactures building materials, highway and pipeline products, and operates one of the foremost asbestos mining facilities.



Textile operations

RAPID-AMERICAN CORPORATION

AND SUBSIDIARIES

SOURCE AND APPLICATION OF CONSOLIDATED FINANCIAL RESOURCES

FOR THE YEAR ENDED JANUARY 31, 1968

Source

Operations:		
Net income	\$ 7,190,057	
Charges not requiring current outlays:		
Depreciation and amortization, including debt expense	10,680,663	
Income applicable to minority interest (less dividends paid of \$4,554,578)	4,446,031	
Deferred Federal income taxes	<u>3,856,000</u>	\$26,172,751
Net increase in long-term debt, exclusive of \$27,406,849 issued during the year by subsidiaries in tender offers and in acquisition of S. Klein Department Stores, Inc.		1,799,911
Common stock rights offering		3,345,005
Exercise of warrants and stock options		1,760,537
Other—net		<u>56,527</u>
		<u>33,134,731</u>

Application

Additions to property and equipment—net	10,541,104	
Dividends paid	1,221,708	
Equity in certain transactions of subsidiaries	<u>4,828,839</u>	<u>16,591,651</u>
 <i>Increase in Working Capital</i>		 <u><u>\$16,543,080</u></u>

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION

AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

	<i>Year Ended</i> <i>January 31,</i>	
	<u>1968</u>	<u>1967</u>
<i>Revenues:</i>		
Net sales	\$873,269,853	\$771,577,139
Other—net	4,321,309	3,785,610
	<u>877,591,162</u>	<u>775,362,749</u>
<i>Costs and Expenses:</i>		
Cost of goods sold.....	647,454,038	569,673,076
Selling, general and administrative expenses.....	178,470,800	158,999,135
Interest and debt expense.....	14,144,637	12,803,579
Depreciation and amortization.....	9,781,527	9,242,752
Federal income taxes	11,549,494	9,429,800
	<u>861,400,496</u>	<u>760,148,342</u>
<i>Income Before Minority Interest.....</i>	<i>16,190,666</i>	<i>15,214,407</i>
<i>Income Applicable to Minority Interest.....</i>	<u><i>9,000,609</i></u>	<u><i>9,320,890</i></u>
<i>Net Income.....</i>	<u><u><i>\$ 7,190,057</i></u></u>	<u><u><i>\$ 5,893,517</i></u></u>
 Net Income per Share of Common Stock.....	 \$2.75	 \$2.59

Pro forma net income per share of common stock, reflecting conversion of all preferred stocks, convertible debentures, warrants and stock options including those not presently exercisable would have been \$1.55 in 1968 and \$1.28 in 1967.

See Notes to Financial Statements.



RAPID-AMERICAN CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Assets

	1968	January 31, 1967
<i>Current Assets:</i>		
Cash and, in 1967, U. S. Treasury Bills.....	\$ 11,989,511	\$ 6,852,110
Receivables, after allowance for doubtful accounts of \$1,641,483 and \$2,040,782.....	9,987,567	23,481,412
Inventories, at lower of cost or market.....	132,893,389	127,467,150
Prepaid expenses, etc.....	5,334,178	4,317,249
Total Current Assets.....	<u>160,204,645</u>	<u>162,117,921</u>
<i>Investments in and Advances to:</i>		
Glen Alden Corporation, at cost.....	34,267,491	34,267,491
McCrary Credit Corporation, at equity.....	10,056,269	8,625,568
North Shore National Bank of Chicago, at cost.....	1,982,500	1,982,500
	<u>46,306,260</u>	<u>44,875,559</u>
<i>Property and Equipment, at cost.....</i>	<i>186,146,880</i>	<i>179,828,234</i>
Less accumulated depreciation and amortization.....	<u>102,700,084</u>	<u>96,750,547</u>
	<u>83,446,796</u>	<u>83,077,687</u>
<i>Other Assets:</i>		
Excess of cost of investments over related equities.....	32,494,742	28,713,796
Unamortized debt expense	8,363,136	6,185,565
Mortgages and sundry.....	2,993,360	5,729,670
Trademarks, deferred charges and unamortized goodwill	3,970,925	4,504,077
	<u>47,822,163</u>	<u>45,133,108</u>
	<u>\$337,779,864</u>	<u>\$335,204,275</u>

See Notes to Financial Statements.

Liabilities and Shareholders' Equity

	January 31,	
	1968	1967
<i>Current Liabilities:</i>		
Notes payable	\$ 2,500,000	\$ 13,053,379
Current maturities of long-term debt.....	11,389,677	24,837,793
Accounts payable	30,563,111	30,562,786
Accrued expenses and sundry	25,857,170	23,262,814
Accrued Federal income taxes.....	11,240,491	8,290,033
Total Current Liabilities.....	81,550,449	100,006,805
 <i>Long-Term Debt, less current maturities.....</i>	 126,612,112	 97,405,352
 <i>Deferred Federal Income Taxes and Other.....</i>	 25,316,547	 24,350,252
 <i>Minority Interest in Subsidiary Companies.....</i>	 66,185,455	 84,466,545
 <i>Shareholders' Equity:</i>		
Preferred stocks.....	2,030,154	3,067,249
Common stock, \$1 par value, authorized 10,000,000 shares, issued (1968) 2,847,484 shares and (1967) 2,136,243 shares, treasury stock 34,536 shares.....	2,812,948	2,101,707
Capital surplus	33,584,088	21,007,249
Earned surplus (since February 1, 1966).....	10,725,193	5,361,907
Equity in subsidiaries' cost of treasury stock.....	(11,037,082)	(2,562,791)
Shareholders' Equity	38,115,301	28,975,321
	 \$337,779,864	 \$335,204,275

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE TWO YEARS ENDED JANUARY 31, 1968

	Outstanding Preferred Stocks	Outstanding Common Stock	Capital Surplus	Earned Surplus	Equity in Subsidiaries' Cost of Treasury Stock
<i>Balance at February 1, 1966 as re- stated</i>	\$ 699,900	\$2,101,707	\$11,249,911	\$ 616,122	\$ (2,404,246)
Add (Deduct):					
Net income				5,893,517	
Issuance of preferred stock:					
For cash	1,500,000				
Upon merger with Hanover Equities Corporation	610,528		5,291,320		
In exchange for \$3,600,000 of a 5% note payable...	240,000		3,360,000		
Upon exercise of options...	16,821		57,013		
Dividends on preferred stock..				(451,973)	
Equity in certain transactions of subsidiaries			1,049,005	(695,759)	(158,545)
<i>Balance at January 31, 1967</i>	3,067,249	2,101,707	21,007,249	5,361,907	(2,562,791)
Add (Deduct):					
Net income				7,190,057	
Reclassification of preferred stock	(271,893)		271,893		
Common stock rights offering.		196,765	3,148,240		
Dividends:					
On preferred stock.....				(885,399)	
On common stock (\$.125 per share)				(336,309)	
Exercise of warrants and options	38,755	308,412	1,413,370		
Conversion of preferred stocks and debentures	(803,957)	206,064	598,993		
Expenses of rights offering, merger of Leeds, and other.			(686,188)	1,360	
Equity in certain transactions of subsidiaries			7,830,531	(606,423)	(8,474,291)
<i>Balance at January 31, 1968</i>	<u>\$2,030,154</u>	<u>\$2,812,948</u>	<u>\$33,584,088</u>	<u>\$10,725,193</u>	<u>\$ (11,037,082)</u>

NOTES TO FINANCIAL STATEMENTS, JANUARY 31, 1968

Principles of consolidation

The consolidated financial statements include the accounts of Rapid-American Corporation and its operating subsidiaries McCrory Corporation and Hanover-North Shore, Inc. In November 1967 Rapid issued 371,256 shares of its \$2.25 Cumulative Convertible Preferred Stock in exchange for all of the outstanding capital stock of Leeds Travelwear, Inc. upon the merger of Leeds into Rapid. This acquisition was accounted for as a pooling of interests; accordingly, the operations of Leeds have been included in the financial statements for the entire year ended January 31, 1968 and the financial statements for the year ended January 31, 1967 have been restated to include Leeds for the calendar year 1966.

The McCrory consolidated financial statements include Lerner Stores Corporation and all wholly-owned subsidiaries except McCrory Credit Corporation. During November 1967, S. Klein Department Stores, Inc., a consolidated subsidiary from April 1966 (date majority control obtained) was merged into McCrory Corporation.

McCrory Credit Corporation and equity in instalment accounts sold

Rapid and its affiliates assign certain customers' accounts receivable to McCrory Credit Corporation, which remits 90% of the amount thereof. The companies accept reassignment of any accounts in default, as defined. The 10% equity of Rapid in assigned accounts (the uncollected balances of which amount to \$50,412,000 at January 31, 1968) is included in receivables in the consolidated balance sheet. Collections in January 1968 (payable to McCrory Credit Corporation in February 1968) from assigned customers' accounts (net of 10% equity) amounting to \$16,791,000 have been deducted from receivables in the consolidated balance sheet. The investment in McCrory Credit Corporation is carried at McCrory's equity in the capital and undistributed earnings at January 31, 1968 as summarized below:

Accounts receivable, less unearned discount	\$50,016,724	
Cash	5,903,622	
Other assets, less other liabilities	1,435,923	\$57,356,269
Notes payable to banks.....	47,300,000	
Notes payable to McCrory and subsidiaries	7,000,000	54,300,000
McCrory's equity.....		\$ 3,056,269

Net income of McCrory Credit Corporation for the years ended January 31, 1968 and 1967 of \$430,701 and \$319,775 respectively, is included in consolidated income.

Inventories

Inventories, at lower of cost or market, consist of the following:

	January 31,	
	1968	1967
Raw materials, including merchandise at contractors—at specific invoice cost or replacement cost	\$ 5,231,880	\$ 5,927,175
Work in process at average cost	5,271,577	5,570,994
Merchandise in transit, at warehouses, and at restaurants—at cost.....	10,917,904	10,994,042
Merchandise at stores and warehouses:		
At retail method.....	85,345,929	79,096,047
At first-in, first-out cost	26,126,099	25,878,892
Total.....	\$132,893,389	\$127,467,150

Investments

CONSOLIDATED SUBSIDIARIES:

McCrory Corporation—Rapid owned at January 31, 1968 and 1967, 2,621,268 shares (54.6%) and 2,630,260 (50.5%), respectively, of McCrory common stock. At January 31, 1968 these shares were pledged as collateral to \$23,000,000 of notes payable by Rapid. Pursuant to a recapitalization tender offer which expired April 10, 1967 McCrory acquired 485,805 shares of its common stock.

Lerner Stores Corporation—McCrory owned at January 31, 1968 and 1967, 2,558,815 shares of Lerner common stock (61.7% and 50.1%, respectively). Lerner during August and September 1967 acquired in a recapitalization tender offer 960,943 shares of its common stock and redeemed 12,227 shares of its preferred stock.

S. Klein Department Stores, Inc.—McCrory owned at January 31, 1967, 805,077 shares (67.1%) of Klein common stock and \$1,836,000 principal amount (55%) of Klein 5¼% convertible subordinated debentures. During September 1967 McCrory converted its Klein convertible debentures into 194,904 shares of Klein common stock, and Klein was merged into McCrory in November 1967.

At January 31, 1968 the aggregate cost of investments exceeded equity in underlying net assets at dates of acquisition as follows: common stock of McCrory (\$1,526,669), common stock of Lerner (\$8,650,000), securities of Klein (\$11,977,148) and operating assets of Joseph H. Cohen & Sons (\$10,340,925). Under certain conditions Rapid is obligated to pay additional amounts for its investment in Joseph H. Cohen & Sons.

The excess purchase costs have been recognized by the managements of Rapid and McCrory as being similar in nature to intangibles which have not declined in value since acquisition. Accordingly, at dates of acquisition, the managements of Rapid and McCrory adopted the policy of not amortizing these excess purchase costs so long as there is no diminution in value of the related investments.

AFFILIATES:

Glen Alden Corporation—McCrory owned at January 31, 1968 and 1967 2,388,230 common shares of Glen Alden (30.5% and 49.7%, respectively). These shares had an approximate market quotation value of \$34,928,000 at January 31, 1968.

North Shore National Bank of Chicago—At January 31, 1968, the principal asset of Hanover-North Shore, Inc. (100% owned by Rapid) was 85,000 shares (market quotation value \$1,275,000) of common stock (28%) of North Shore National Bank of Chicago which were pledged on that date as collateral to \$900,000 of notes payable of Hanover-North Shore, Inc.

Property and equipment

Property and equipment, stated at cost, consist of the following:

	January 31,	
	1968	1967
Store properties, warehouses and leased facilities	\$ 15,918,010	\$ 14,973,735
Furniture and fixtures and leasehold improvements	166,990,482	162,099,503
Machinery and equipment.....	3,238,388	2,754,996
Total	\$186,146,880	\$179,828,234

NOTES TO FINANCIAL STATEMENTS, JANUARY 31, 1968

Rapid and its subsidiaries provide for depreciation and amortization at rates applied generally on the straight line method over the estimated service lives of the properties.

Long-term debt

Long-term debt at January 31, 1968 and maturities due within one year consisted of the following:

	Current Maturities	Long-Term Debt
5¾% convertible subordinated debentures, due January 1, 1977, less debentures in treasury \$750,000 (a).....		\$ 12,448,840
5%-6% notes, due 1968 to 1976 (b)	\$ 4,000,000	21,300,000
5½% sinking fund subordinated debentures, due 1976 (c).....	2,021,472	32,775,168
5.235% subordinated notes, due in equal annual instalments to 1969	1,786,284	1,786,285
5% junior subordinated notes, maturing serially to April 1, 1970	1,194,115	1,791,172
5% junior sinking fund subordinated debentures, due July 15, 1981 (d).....		13,113,450
5.70% promissory note, due serially to September 1, 1969 (e) ..	1,000,000	3,400,000
Notes payable to banks under Revolving Credit Agreement (f)		14,700,000
6½% convertible subordinated debentures, due February 15, 1992 (g).....		12,092,207
6½% sinking fund subordinated debentures, due September 1, 1982	100,248	9,924,582
Sundry, principally mortgages. . . .	1,287,558	3,280,408
Total	\$11,389,677	\$126,612,112

(a) The issued debentures are convertible into common stock of Rapid at \$21.25 principal amount of debentures for each share of common stock, subject to anti-dilution provisions, and are callable upon notice at principal amount with interest to redemption date.

(b) Long-term portion includes \$5,000,000 due December 31, 1968 which the Company intends to refinance.

(c) Exclusive of \$26,976 redeemed and cancelled which is available for 1969 sinking fund payment. Sinking fund requirements in each year are as follows: 1969 through 1971—\$2,048,448; 1972 through 1976—\$3,277,517, with a final payment of \$12,290,687 due on August 15, 1976.

(d) Required annual sinking fund payments commencing January 30, 1970 are 2% of the aggregate principal amount outstanding on the preceding January 15. Such payments at the 2% rate continue each succeeding year to and including 1974 and at the rate of 5% with respect to each year thereafter to January 30, 1980.

(e) Payment of \$1,000,000 due on September 1, 1968 with the balance payable on September 1, 1969.

(f) Revolving Credit Agreement: 6%, 90 day promissory notes to banks renewable at the option of McCrory at each maturity date to July 31, 1969. It is McCrory's intention to renew these notes until July 31, 1969.

(g) Convertible at the option of the holder at the conversion price of \$25 principal amount of debentures per share of McCrory common stock to and including February 14, 1972, \$30 to and including February 14, 1977 and \$35 to and including February 15, 1992.

The aggregate of long-term debt maturing during the five years ending January 31, 1973 is approximately as follows: 1969, \$11,390,000 (included in current liabilities); 1970, \$15,953,000; 1971, \$7,364,000; 1972, \$6,547,000; and 1973, \$9,884,000.

Agreements covering certain indebtedness of Rapid contain covenants concerning working capital position, additional indebtedness and restrictions on transactions in capital stock, and prohibit the declaration and payment of dividends on its common stock subsequent to January 31, 1969.

Federal income taxes

For Federal income tax purposes accelerated methods of computing depreciation and the instalment method of reporting certain sales have been availed of by certain of Rapid's subsidiaries. The use of these methods has resulted in tax deferrals which have been charged against income and credited to deferred Federal income taxes.

Based on Federal income tax returns filed, which are subject to review by the Internal Revenue Service, Rapid has tax loss carryforwards of approximately \$5,000,000 expiring in the year ended January 31, 1969, \$13,300,000 in 1970, and \$1,100,000 in 1971.

Preferred stock

At January 31, 1968 preferred stock of Rapid was as follows:

	\$2.25 Cumulative Convertible Preferred	5% Cumulative Convertible Preferred
Number of shares:		
Originally authorized	1,100,000	30,000
Issued and outstanding.....	615,077	8,000
Per share:		
Par value	\$ 2.00	\$100.00
Redemption price	47.25	105.00
Liquidation preference	45.00	100.00
Conversion rate	3 for 1	10 for 1
Common shares reserved for conversion of preferred stock.....	1,845,231	80,000
Aggregate par value of preferred stock outstanding	\$1,230,154	\$800,000
Aggregate liquidation preference..	\$27,678,465	\$800,000

In November, 1967, Rapid reclassified the 815,680 outstanding shares of \$.75 preferred stock, par value \$1 per share, into 271,893 shares of \$2.25 preferred stock, par value \$2 per share, on a 3 for 1 ratio.

In connection with the merger with Leeds Travelwear, 371,000 additional shares of \$2.25 preferred stock of Rapid may be required to be issued under certain circumstances. In addition

NOTES TO FINANCIAL STATEMENTS, JANUARY 31, 1968

Leeds stock options are exercisable for Rapid's \$2.25 preferred stock as follows:

	Option Price Range	Number of Shares
Outstanding February 1, 1967	\$7.23-\$20.89	25,628
Transactions during year ended January 31, 1968:		
Granted	\$23.31	886
Exercised	\$7.23-\$19.29	(19,377)
Outstanding January 31, 1968	\$7.90-\$23.31	<u>7,137</u>

At January 31, 1968, 1,570 shares were exercisable at prices ranging from \$7.90 to \$20.89. No additional shares will be granted under this plan.

Common stock

Rapid's qualified stock option plan authorizes the grant to officers, other executives and key employees of options to purchase 200,000 shares of common stock at not less than 100% of fair market value on the dates of grant. Option data for the year ended January 31, 1968 are as follows:

	Option Price Range	Number of Shares
Outstanding February 1, 1967	\$ 8.17-\$12.75	157,200
Transactions during year ended January 31, 1968:		
Granted	\$17.50-\$23.00	4,900
Exercised	\$11.75-\$12.75	(8,412)
Cancelled	\$ 8.17-\$17.50	(5,825)
Outstanding January 31, 1968	\$ 8.17-\$23.00	<u>147,863</u>
At January 31, 1968:		
Exercisable	\$ 8.17-\$12.75	103,762
Available for grant		43,725

At January 31, 1968, warrants entitling their holders to purchase 175,000 shares of Rapid's common stock were outstanding as follows:

Expiration Date	Exercise Price	Number of Warrants
December 31, 1970	\$10	75,000
June 1, 1976	5	100,000
Total		<u>175,000</u>

At January 31, 1968 there were 721,897 shares of McCrory common stock reserved for the conversion of McCrory preferred and preference stocks and debentures, 859,345 shares of McCrory common stock reserved for issuance under stock option plans, and 4,034,459 McCrory common stock purchase warrants outstanding.

Pension plans

McCrory has two non-contributory pension plans covering certain of the employees of Lerner and the MMG Division. It is McCrory's policy to fund pension costs accrued as required. For the years ended January 31, 1968 and 1967 pension costs under the Lerner plan amounted to \$427,000 and \$390,000, respectively. No contributions were required for the MMG plan for these years since the amounts accumulated in the trust fund exceeded the liability and vested benefits, as computed by the consulting actuary.

Pension plans have been adopted for certain employees of the Klein and Best & Co. divisions of McCrory. These plans are not yet operative, pending approval of the Internal Revenue Service. The actuarially computed past service costs in respect to these plans as of January 1, 1968 was approximately \$2,573,000. If the plans become operative, it is McCrory's intention to amortize the past service costs over a 30 year period.

Other matters

There are several claims pending against Rapid and subsidiaries together with other contingencies (including long-term leases on locations at which operations have been or will be discontinued). Total liability cannot be determined but management and counsel are of the opinion that the liabilities in the consolidated financial statements are adequate to cover the same. At January 31, 1968 the minimum annual rentals upon property leased to Rapid and its subsidiaries under leases expiring after January 1971 amount to approximately \$32,000,000 plus, in certain instances, real estate taxes, insurance, etc.

ACCOUNTANTS' OPINION

RAPID-AMERICAN CORPORATION:

We have examined the financial statements of Rapid-American Corporation and subsidiaries except Lerner Stores Corporation and its subsidiaries for the year ended January 31, 1968. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to Lerner Stores Corporation and its subsidiaries, we were furnished with the report of other accountants on their examination of the financial statements of that company and its subsidiaries for the year.

In our opinion, based on our examination and the report of other accountants referred to above, the accompanying consolidated balance sheet and statements of consolidated income, shareholders' equity and source and application of consolidated financial resources present fairly the financial position of Rapid-American Corporation and subsidiaries at January 31, 1968 and the results of their operations and the source and application of their consolidated financial resources for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS
Certified Public Accountants

New York, N. Y.
April 8, 1968

BOARD OF DIRECTORS

ISIDORE A. BECKER*	LEONARD C. LANE*	PINHAS RIKLIS
JACK BRIER*	SAMUEL J. LEVY*	LORENCE A. SILVERBERG*
GEORGE V. DELSON	SAMUEL NEAMAN	MURRAY J. TOUSSIE
BERNARD KOBROVSKY	MESHULAM RIKLIS*	HARRY H. WACHTEL*

OFFICERS

MESHULAM RIKLIS
Chairman of the Board and President

LEONARD C. LANE
Vice Chairman and Executive Vice President

SAMUEL J. LEVY
Vice Chairman

ISIDORE A. BECKER
Financial Vice President

HARRY H. WACHTEL
Executive Vice President

LORENCE A. SILVERBERG
Vice President

ANTHONY W. TRAPANI
Vice President and Treasurer

JOSEPH B. RUSSELL
Secretary

*Member of Executive Committee.

AUDITORS.....HASKINS & SELLS, NEW YORK, N. Y.

GENERAL COUNSEL.....RUBIN, WACHTEL, BAUM & LEVIN, NEW YORK, N. Y.

TAX ADVISORS.....HANIGSBERG, DELSON & BROSER, NEW YORK, N. Y.

TRANSFER AGENTS	{	Common Stock	{	CHEMICAL BANK NEW YORK TRUST COMPANY, NEW YORK, N. Y.
		\$2.25 Convertible Preferred Stock.....		CHEMICAL BANK NEW YORK TRUST COMPANY, NEW YORK, N. Y.

REGISTRAR.....THE CHASE MANHATTAN BANK (N.A.), NEW YORK, N. Y.

LISTINGS.....	{	Common Stock	}	AMERICAN STOCK EXCHANGE
		\$2.25 Convertible Preferred Stock		
		5¾ % Convertible Debentures		
		Common Stock		CINCINNATI STOCK EXCHANGE

EXECUTIVE OFFICES 711 FIFTH AVENUE, NEW YORK, N. Y. 10022

